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TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [MU](#) [IR](#)
SUBJECT: GAS SHORTAGE REMAINS TOP CONCERN OF OMANI MINISTRY

REF: 07 MUSCAT 494

Classified By: Ambassador Gary A. Grappo, reasons 1.4 b and d

Summary

¶1. (C) The Omani government continues to discuss its gas supply needs with Iran and Qatar, though it is optimistic that recent domestic exploration efforts will reduce its projected dependence on imports. The government is equally hopeful that its investment in enhanced oil recovery techniques will stop the current seven-year slide in oil production. End Summary.

Still Talking with Iran...

¶2. (C) On March 5, Econoff discussed the status of Oman's energy reserves with Dr. Khalifa al-Hinai, Technical Advisor to the Minister of Oil and Gas. Hinai identified the looming gas deficit as one of the Ministry's top concerns (reftel). "We do have a problem, as supply and demand are just about equal right now," he stated.

¶3. (C) Hinai acknowledged that the government, in addressing its impending near-term shortage, was engaged in import discussions with Iran per a Memorandum of Understanding signed last year (reftel). He added, however, that the two sides were far apart on price. Hinai recounted his "tedious" experience in negotiating with the Iranians six years ago, when they were asking \$3.50 per million BTUs when the market was only supporting \$2. "I told the Minister that it was too much, just to forget about it," he said. With the Iranians now asking \$9 per million BTU, Hinai was not sanguine that this impasse would be resolved quickly.

¶4. (C) Hinai further dismissed the possibility of joint investment opportunities with Iranian firms. "It's much easier just to buy gas at the gate," he remarked. On the development of the Hinjam/Bukha field (reftel), Hinai stated, "We will not develop the field jointly with Iran; we will do our half by ourselves through Oman Oil." He left open the possibility of Oman developing the Iranian side of the field should it be requested to do so.

...and Qatar

¶5. (C) On efforts to obtain gas from Qatar, Hinai remarked that Oman was now beginning to receive some supply from the Dolphin pipeline, but wouldn't be able to obtain additional amounts from the project. "Qatar has a moratorium on its

northern dome, but we are looking for investment possibilities in Qatar's fields," he stated. For that reason, Hinai predicted that, "We shouldn't have a problem obtaining additional gas from them in the future."

Looking Inward

¶6. (C) Hinai highlighted the Ministry's hope that sourcing additional gas supplies internally would reduce its import needs over the long-term. He commented, "If we're satisfied with our indigenous reserves, then we'll back off importing."

Hinai said that BP, which was granted a concession in December 2006 to explore the Makaram field, would be ready to drill by October, with expectations of reaching full production in two years' time. (Note: BP Country Manager Michael Townshend told Econoff during the company's February 26 office opening that its production timeline was intact after overcoming several early obstacles. End Note.) Hinai continued that BG Oman's exploration efforts along the Saudi border were promising, with preliminary seismic results indicating that reserves were "much bigger" than had been predicted earlier.

Reversing Oil Production Declines

¶7. (C) On oil production, Hinai reaffirmed the Ministry's projection that Oman would be able to meet the production target of 795,000 barrels per day (bpd) this year, since "Petroleum Development Oman's (PDO) problems have been solved due to the effectiveness of secondary recovery methods." He further stated that Occidental Petroleum was on-track to produce more oil from its Mukhaizna field, which he expects to reach 50,000-60,000 bpd by the end of the year.

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